

Investing in development



For Commonwealth countries that lack capacity to produce internationally competitive goods and services or whose capacity to do so is not recognised, the fruits of globalisation stay tantalisingly out of reach. Investment, both domestic and foreign, is what they need, but that is easier said than done. The Commonwealth seeks to promote such investment, as well as debt relief.

'Endowed' handicaps outside a government's control such as a country's smallness, remoteness, being land-locked or environmentally vulnerable, conspire to undermine their competitiveness. The risk involved in investing in these countries may only be marginally greater than in other countries, but may nevertheless be enough to put off investors altogether.

The steady erosion of trade preferences, which compensated for such disadvantages, means innovative ways now have to be identified to use official resources, in a market-friendly manner, to address the risk premium attached to endowed handicaps. The principle of using official funds to pool risk to attract investment to disadvantaged regions is not new, having been widely used in highly industrialised countries to reduce regional disparities. The Commonwealth has undertaken a number of activities to promote private flows to emerging and pre-emerging markets.

Risk sharing in vulnerable economies

The Commonwealth Secretariat commissioned a study on 'Lowering the Threshold: Changing Private Investors' Perceptions by Reducing the Cost and Risk of Investment in Least Developed, Small and Vulnerable Economies' (LTT). It found that much effort by governments, aid donors, international financial institutions and regional development banks has been expended to improve the climate for private investment. However, in spite of these efforts, the reality is that least developed, small and vulnerable economies still face particular problems in attracting such investment. Following the publication of the LTT report, consultations were undertaken with regional development banks, the International Finance Corporation and the European Investment Bank as well as major

Commonwealth donors, including Australia, Canada and the UK. The outcomes were presented at the 2002 Commonwealth Finance Ministers Meeting, which mandated the Secretariat to advance this work.

At its first meeting on 18–20 June 2003 in Washington, DC, the Working Party set up by the Secretariat agreed upon the design of a Small Vulnerable Economies Facility which would reduce the risk-related cost of long-term investment. It proposed to do so through innovative collaboration among international financial institutions, regional development banks and domestic commercial banks. In the first instance, the European Investment Bank and ANZ Bank agreed to begin a process of intensive consultations to launch a South Pacific-wide initiative. The Caribbean Development Bank will seek to take forward the initiative in its region and the Secretariat will work to extend the facility to Africa.

The Commonwealth Private Investment Initiative

Private investment flows to emerging markets are regrettably still concentrated in just a handful of countries, but the Secretariat is keeping up its efforts to catalyse private investment to a wider group of Commonwealth developing countries. The Commonwealth Private Investment Initiative (CPII) launched in 1995 has continued to promote commercial investments in small and medium-sized private projects. While promoting investment into perceived high-risk/high-return enterprises it also seeks to change conventional perceptions of risk. It is an important example of the Commonwealth's ability to stimulate South-South and North-South co-operation and public/private partnerships to promote development among member countries.

Under CPII, four regional funds have been

Above:

Attracting more investment into developing countries was on the agenda at the 2002 Commonwealth Finance Ministers Meeting in London

Opposite:

The Mumbai Stock Exchange, India: the Commonwealth promotes private capital flows to emerging markets

established for Africa, the Caribbean, the Pacific and South Asia. They have raised more than US\$200 million to date from Commonwealth and non-Commonwealth investment agencies and government pension funds. Three of the four are now fully invested and the fourth – for the Caribbean – is pursuing an active investment programme under new management.

Meanwhile the Commonwealth Africa Investment Fund (COMAFIN), set up in 1996, has invested in agro-business and horticulture projects, mobile communications, brewery, real estate, mining and private infrastructure in Ghana, Kenya, Mozambique, South Africa, Uganda, Zambia and Zimbabwe. The Fund is expected to generate 6–8 per cent net returns to investors over its 10-year life.*

The confidence generated by COMAFIN helped to pave the way for a new fund for Africa – the Pan Commonwealth Africa Partners – launched during the 2002 CHOGM. In promoting private flows, it supports a central objective of NEPAD, the New Partnership for Africa's Development. The new fund's investment strategy is to find and support businesses across all industry and service sectors to grow to achieve regional and trans-African scale and it had its first closure in June this year. US\$90 million has been committed by the International Finance Corporation, the Development Bank of Southern Africa and FMO, the Dutch development agency. Active marketing is being undertaken with financial institutions in Commonwealth South and East Asia, Europe and the Middle East. A second generation fund is also planned for the South Asia region, the first having achieved 15 per cent net returns on capital invested.

Debt and the HIPC Initiative

Investors are always influenced by the general well-being of a country, everything from the state of physical infrastructure to such factors as the health and education of its people. The development prospects of the Heavily Indebted Poor Countries (HIPCs) remain constrained by their unsustainable debt burden, which leaves them with little money to improve upon any of the many factors that shape investor confidence.

The Secretariat continues to attach high priority to its analytical work and technical support to assist HIPCs in their advocacy and



debt management. This work has had a higher profile since Commonwealth Finance Ministers called for the establishment of the Commonwealth HIPC Ministerial Forum in September 2000. The Forum meets twice a year just before the Spring and Autumn meetings of the International Monetary Fund and the World Bank, and its outcomes are fed into the IMF and Bank's Joint Implementation Committee. The Forum has met three times, in Malawi, the UK and the United Republic of Tanzania, and is currently chaired by the Minister of Finance of Tanzania.

The HIPC Initiative has generated substantial debt relief, releasing much-needed resources for health and education. However, it has not enabled countries to achieve long-term debt sustainability and the sustained growth needed to attain the Millennium Development Goals. The key elements of the Secretariat's advocacy work are therefore: a collective diplomatic initiative to bring non-participating creditors on board; promoting a flexible approach in topping up to ensure sustainable exit for HIPCs at completion point; addressing non-tariff barriers which inhibit their market access; highlighting the importance of all major multilateral creditors' providing

adequate grant financing to vulnerable HIPCs and of the further untying of bilateral aid; reaffirming the need to address the domestic debt burden and developing effective public expenditure management with the support from donors; and focusing on the need for costing poverty reduction strategy papers, aligning them with the budgetary cycle/macroeconomic framework, and providing predictable and harmonised donor support.

The Secretariat co-hosted, with the World Bank, a workshop on the theme 'Long-Term Debt Sustainability in the Context of Achieving the Millennium Development Goals', in Accra, Ghana, in June 2003. The workshop highlighted the need to broaden the approach to debt sustainability, placing greater emphasis on increasing growth and export earnings.

*This and other figures quoted in relation to anticipated returns on investment are from the Progress Report on CPII prepared for the 2003 Commonwealth Finance Ministers Meeting.